



**HIGHWAY AND TRANSPORTATION EMPLOYEES' AND
HIGHWAY PATROL RETIREMENT SYSTEM
FOUR YEARS ENDED JUNE 30, 2000**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2001-21
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AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2001

www.auditor.state.mo.us

The following report is our review of the Highway and Transportation Employees' and Highway Patrol Retirement System.

There were no audit findings regarding this retirement system.

The State Auditor is required by state law to review the audits of the Highway and Transportation Employees' and Highway Patrol Retirement System. The system's Board of Trustees has contracted with a private certified public accounting firm to perform annual financial audits of the system. The scope of this review included, but was not necessarily limited to, the period of July 1, 1996 to June 30, 2000.

The Highway and Transportation Employees' and Highway Patrol Retirement System was created under an act of the 68th General Assembly, commenced actual operations on September 1, 1955, and is governed by Sections 104.010 to 104.272 of the Revised Statutes of Missouri. The system is a single-employer public employee retirement system for full-time employees of the Missouri Department of Transportation and the Missouri State Highway Patrol. The Highway and Transportation Employees' and Highway Patrol Retirement System is a defined benefit plan providing service retirement, death, and disability benefits to its members. A summary of the retirement, death, and disability benefits provided to members is included in our report.

Copies of this audit are available upon request.

YELLOW SHEET

HIGHWAY AND TRANSPORTATION EMPLOYEES' AND
HIGHWAY PATROL RETIREMENT SYSTEM

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CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Board of Trustees
and
Norm Robinson, Executive Director
Highway and Transportation Employees' and Highway Patrol Retirement System
Jefferson City, MO 65102

The State Auditor is required by Section 104.190.4, RSMo 2000, to review the audits of the Highway and Transportation Employees' and Highway Patrol Retirement System. The Board had engaged Evers and Company, Certified Public Accountants (CPAs), L.L.C. to perform the annual financial audits of the system for the years ended June 30, 2000, 1999, 1998, 1997. We reviewed the reports and substantiating workpapers of the CPA firm. The scope of this review included, but was not necessarily limited to, the period of July 1, 1996 to June 30, 2000. The objectives of this review were to:

1. Review certain financial activity and related procedures, and examine compliance with certain constitutional provisions, statutes, administrative rules, and attorney general's opinions.
2. Examine certain management practices.

Our review was conducted in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the system's board minutes, various contracts, and other pertinent policies, and discussed various system procedures with applicable personnel.

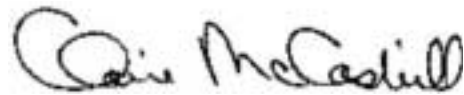
As a part of our review, we assessed the system's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation.

Our review was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed

additional procedures, other information might have come to our attention, which would have been included in this report.

The accompanying Statistical Section is presented for informational purposes. This background information was obtained from the system's management and was not subjected to the procedures applied in the review of the Highway and Transportation Employees' and Highway Patrol Retirement System of Missouri.

The accompanying Management Advisory Report presents our findings arising from our review of the Highway and Transportation Employees' and Highway Patrol Retirement System of Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is cursive and fluid, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

March 2, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
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MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Findings

HIGHWAY AND TRANSPORTATION EMPLOYEES' AND
HIGHWAY PATROL RETIREMENT SYSTEM
MANAGEMENT ADVISORY REPORT

In addition to our review of the reports and substantiating working papers of Evers and Company, CPAs, L.L.C., we included those procedures which we considered necessary in the circumstances.

We reviewed probable compliance with certain constitutional provisions, statutes, administrative rules, and attorney general's opinions, as we deemed necessary or appropriate. This review was not intended to provide assurance of full compliance with all regulatory provisions and, thus, did not include all regulatory provisions which may apply. Nevertheless, our review disclosed no conditions that represent significant violations.

This report is intended for the information of the system's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

STATISTICAL SECTION

History, Organization, and
Statistical Information

HIGHWAY AND TRANSPORTATION EMPLOYEES' AND HIGHWAY PATROL RETIREMENT SYSTEM HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Highway and Transportation Employees' and Highway Patrol Retirement System (HTEHPRS) was created under an act of the 68th General Assembly, commenced actual operations on September 1, 1955, and is governed by Sections 104.010 to 104.272 of the Revised Statutes of Missouri. The HTEHPRS is a single-employer public employee retirement system for full-time (defined as anticipating at least 1,000 hours to be worked annually) employees of the Missouri Department of Transportation (MoDOT) and the Missouri State Highway Patrol (MSHP). The HTEHPRS is a defined benefit plan providing service retirement, death, and disability benefits to its members.

The responsibility for the operation and administration of the retirement system is vested in the HTEHPRS Board of Trustees, consisting of three members of the state Highway and Transportation Commission, the chief engineer of the MoDOT, the superintendent of the MSHP, one member of the Senate, one member of the House of Representatives, one active employee of the MoDOT, one active employee of the MSHP, and one retired member. The latter three members are elected by a plurality vote of the active, vested, and retired members of their respective departments to serve four-year terms. The Board of Trustees as of June 30, 2000, were as follows:

Name	Position	Membership	Term Expires
Edward D. Douglas	Chairman	Elected *	December 1, 2001
W.L. "Barry" Orscheln	Vice-Chairman	Elected *	December 1, 2003
William E. Gladden	Member	Elected *	October 1, 2001
Larry Thompson	Member	Elected (MoDOT active member)	July 1, 2002
Major Roger Stottlemire	Member	Elected (MSHP active member)	July 1, 2002
Bill Shaw	Member	Elected (Retired)	July 1, 2002
Colonel Weldon Wilhoit	Member	Superintendent, MSHP	Ex-Officio
Henry Hungerbeeler	Member	Director, MoDOT	Ex-Officio
Steve Stoll	Senator	Appointed	**
Gracia Backer	Representative	Appointed ***	**

* Elected by the members of the state Highway and Transportation Commission.

** The Senator is appointed by the President Pro Tem of the Senate and the Representative is appointed by the Speaker of the House of Representatives.

*** This position was vacant as of January, 2001.

Norm Robinson serves as Executive Director and is responsible for the records of the system and the hiring of retirement system staff, subject to the direction of the Board of Trustees. The Executive Director reviews retirement policies, procedures, investments and legislation and

informs the board on all matters pertaining to the system. At June 30, 2000, the retirement system had four employees including the Executive Director. In addition to the system's four employees, some MoDOT and MSHP employees also perform retirement related duties for the HTEHPRS.

The Board of Trustees has appointed Gabriel, Roeder, Smith and Company, of Detroit, Michigan as actuarial consultant. As of June 30, 2000, the following investment managers held investments for the HTEHPRS: United Missouri Bank Investment Advisors, of Kansas City, Missouri; Rothschild Asset Management, of New York, New York; Wachovia Timberland Investments, of Atlanta, Georgia; and Alliance Capital Management, of New York, New York. Asset Consulting Group, Inc., of St. Louis, Missouri serves as the system's investment monitor.

The Chief Counsel of the Highway and Transportation Commission furnishes legal services and provides legal opinions of the retirement statutes as necessary for implementation.

As of June 30, 2000, there were 9,171 active members, 6,119 retired members, disability recipients, and beneficiaries, and 912 terminated vested members of the HTEHPRS.

Membership, required contributions, and benefits provided under the HTEHPRS are generally as follows:

Eligibility

Membership is automatic for all employees of the MoDOT or the MSHP whose position normally requires at least 1,000 hours of work per year and who are not currently covered under another retirement plan requiring state contributions (not including Social Security).

Contributions

Contributions to the retirement system are made by the State of Missouri. Employees do not contribute to the system. The retirement system's funding policy provides for actuarially determined employer contributions using the entry-age normal cost method on a closed group basis (consisting of normal cost and amortization of any unfunded accrued liabilities over a forty year period). The contribution rates determined by the system's actuary, expressed as percentages of annual covered payroll and which include the contributions for long-term disabilities, for the four years ended June 30, 2000 were as follows:

Year Ended June 30, 2000	Non- Uniformed 22.00	%	Uniformed 30.44	%
1999	22.52	%	31.68	%
1998	26.05	%	37.74	%
1997	26.15	%	39.17	%

Service Retirement Benefits

Service retirement benefits are payable to members who have terminated covered employment and who have met certain eligibility requirements. Benefits are based on a formula which multiplies the average monthly pay received during the thirty-six consecutive months when compensation was greatest, by the applicable formula factor, by the years and twelfths of a year of creditable retirement service, and, in the case of early retirement of non-uniformed members, by an age reduction factor.

NORMAL RETIREMENT

A non-uniformed member may retire under the standard (.016) formula with full benefits at age sixty-five with four years of creditable service, age sixty with fifteen years of creditable service, or if the sum of the member's age and years of service equals eighty or more, provided the member is at least fifty years of age (eighty and out provision). Uniformed members may retire under the standard (.0213) formula with full benefits at age fifty-five with four years of creditable service, or when they qualify for the eighty and out provision.

EARLY RETIREMENT

Non-uniformed members age fifty-five through fifty-nine who have completed ten years but less than thirty years of creditable service qualify for a reduced benefit. Non-uniformed members age sixty through sixty-four who have completed ten years but less than fifteen years of creditable service also qualify for a reduced benefit. The benefit is computed by using the same formula for full benefits and then is reduced by .006 for each month of service the employee is younger than the full benefit retirement age.

PAYMENT OPTIONS

Upon applying for retirement benefits, the employee may select one of the following options to provide a survivorship:

Full Base Benefits or Full Adjusted Base Benefits (reduced for early retirement) with One-Half Spouse Survivorship: Under this option the initial base benefit is unreduced. In the event of the retiree's death, the spouse is entitled to an amount equal to one-half the retiree's benefit at the time of the retiree's death.

Reduced Spouse Option – Joint and Full: Under this option the base benefit, or adjusted base benefit, is reduced based on the difference between the age of the retiree and the spouse. In the event of the retiree's death, the spouse is entitled to an amount equal to the retiree's benefit at the time of the retiree's death. If the designated spouse dies before the retiree, the retiree's benefit will revert to a normal annuity after notifying the board in writing of the spouse's death and providing a certified copy of the death certificate.

Guaranteed Payments: Under this option the base benefit, or adjusted base benefit, is reduced to guarantee sixty or one hundred twenty payments. In the event of death prior to the elected number of benefit payments, the reduced amount will be paid to the designated beneficiary or to the estate.

In all cases where the benefit is reduced to provide a survivorship, the reduction continues throughout the lifetime of the retiree.

Minimum Benefit

The total base monthly benefit payable to a member shall not be less than \$15 multiplied by the number of full years of creditable service. Elections to reduce the member's benefit for early retirement or to provide a survivor's benefit will not increase the minimum benefit. Terminated members entitled to a deferred annuity do not qualify for the minimum benefit.

Supplemental Pension

Uniformed members receive a special benefit of \$90 per month reduced by any amount earned during gainful employment. This special benefit terminates at age sixty-five and is not applicable for uniformed members of the patrol hired after January 1, 1995.

Deferred Benefits

Employees with five years of service who terminate employment are entitled to deferred benefits when they attain the age qualifying them for normal or reduced benefits. Should a terminated vested member return to employment and complete one year of service, all prior service will be restored and future benefits will be computed on the total creditable service, average compensation, and law in effect at the time of subsequent termination or retirement.

Cost of Living Adjustments

An annual cost of living adjustment (COLA) in benefits is made effective October 1 of each year for retirees, normal and work related disability recipients, and qualified surviving spouses who received benefits the preceding month. Employees hired before August 27, 1997 receive an annual COLA of 80 percent of the change in the consumer price index with a minimum of 4 percent and a maximum of 5 percent, not to exceed a cumulative total of 65 percent of the initial benefit or the benefit received September 30, 1986. After reaching the 65 percent cap, future COLAs will be the same as for

employees hired after August 27, 1997. For employees hired after August 27, 1997, the minimum of 4 percent and the 65 percent cap have been removed.

Disability Benefits

There are three categories of disability benefits:

Long-Term Disability: Benefits for long-term disability are equal to 60 percent of the compensation immediately prior to the disability less primary Social Security and any benefits provided at the cost of the MoDOT or the MSHP, including Workers' Compensation indemnity benefits. The minimum long-term disability monthly benefit is 9 percent of the member's salary immediately prior to becoming disabled, or \$50, whichever is greater. Creditable service in the retirement system will continue to accrue until retirement or until the member qualifies for full retirement benefits, whichever is earlier.

Normal Disability: Benefits for normal disability are computed in the same manner as retirement benefits (average compensation times 1.6 percent times the years of creditable service). Time spent on normal disability will not be included as creditable service should the disabled employee return to work.

Work Related Disability: Work related disability benefits are equal to 70 percent of the compensation the employee was receiving at the time of the work-related injury; provided, however, that the benefit amount plus Social Security disability benefits should not exceed 90 percent of the employee's salary.

All disability benefits are reduced by any amount of weekly indemnity benefits paid to the member as a result of Worker's Compensation. In addition, disability benefits are discontinued if the member regains his/her earning capacity.

Survivor Benefits

Should a member die after completing three years of service, the spouse or unemancipated children under age 21, if named as beneficiary, qualify for 25 percent of the benefit the member would have received had he retired on the date of the death. This benefit will be increased five-twelfths of 1 percent for each month of service in excess of five years to a maximum of 50 percent of the member's base benefit. The member and spouse must have been married at least two years for the spouse to qualify.

Should a member with ten years or more of service die, the surviving spouse may elect, in lieu of the benefit above, to receive a survivorship calculated as if the member had retired on the date of death and elected the Joint and Full option. Spouses of deceased retirees who retired prior to August 28, 1989, shall be compensated monthly based on the option that the member chose at the time of retirement or an amount equal to one-half the amount the retiree was receiving at the time of the retiree's death, whichever is greater.

Reciprocity and Prior Service

The system allows for the transfer or purchase of creditable service of public employees who move from one position covered by one public employee retirement system to another. The system also allows certain members of the uniformed patrol who had served as police officers for any city to purchase equivalent service for that time not to exceed four years.

Subsequent Events

The HTEHPRS adopted the “Year 2000” Plan pursuant to Sections 104.1006 to 104.1093, RSMo 2000 on August 28, 1999. The provisions of Sections 104.150 to 104.190 and 104.210 to 104.240, RSMo 2000 will continue to be applicable to the HTEHPRS under the Year 2000 Plan. The Year 2000 Plan affects all people hired on or after July 1, 2000, as well as HTEHPRS active members, vested former members, and retirees and survivors who elect to transfer to the Year 2000 Plan within established guidelines. Under the Year 2000 Plan, each member’s life annuity is equal to one and seven tenths percent of the final average pay of the member multiplied by the member’s years of creditable service. The Year 2000 Plan also changes the eligibility for normal and early retirement for non-uniformed employees, changes some survivor options, and establishes an additional temporary benefit until eligibility for Social Security benefits for members retiring under the “eighty and out” provision.

* * * * *